27-Jan-2022

The Sherwin-Williams Co. (SHW)

Q4 2021 Earnings Call

Copyright © 2001-2022 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

OTHER PARTICIPANTS

Christopher Parkinson
Analyst, Mizuho Securities USA LLC

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Truman Patterson
Analyst, Wolfe Research LLC

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Michael Sison
Analyst, Wells Fargo Securities LLC

Steve Byrne
Analyst, BofA Securities, Inc.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Michael J. Harrison
Analyst, Seaport Research Partners

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Gregory Scott Melich
Analyst, Evercore ISI

John Roberts
Analyst, UBS Securities LLC

Adam Baumgarten
Analyst, Zelman & Associates

Garik Shmois
Analyst, Loop Capital Markets LLC

Jaideep Pandya
Analyst, On Field Investment Research LLP

Copyright © 2001-2022 FactSet CallStreet, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Thank you for joining The Sherwin-Williams Company's review of the fourth quarter 2021 results and our outlook for the first quarter and full year of 2022.

With us on today's call are John Morikis, Chairman, President and CEO; Al Mistysyn, CFO; Jane Cronin, Senior Vice President, Corporate Controller; and Jim Jaye, Senior Vice President, Investor Relations and Communications.

This conference call is being webcast simultaneously in listen-only mode by Issuer Direct via the internet at www.sherwin.com. An archived replay of this webcast will be available at www.sherwin.com beginning approximately two hours after this conference call concludes.

This conference call will include certain forward-looking statements as defined under US federal securities laws with respect to sales, earnings and other matters. Any forward-looking statement speaks only as of the date on which such statement is made, and the company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise. A full declaration regarding forward-looking statements is provided in the company's earnings release transmitted earlier this morning.

After the company's prepared remarks, we'll open the session to questions. I will now turn the call over to Jim Jaye.

James R. Jaye

Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

Thank you. And good morning, everyone. While our fourth quarter sales were within our guidance, earnings results fell short of our expectations, ending our year on a disappointing note.

As we described on our January 14 call, raw material availability did not improve as meaningfully as anticipated in the quarter, and the Omicron variant put additional pressure on our company, particularly in The Americas Group and our global supply chain organization as well as on our suppliers and our customers. We also faced the highest inflation of the year in the fourth quarter, which we are combating with continued pricing actions. These are near-term headwinds.

The good news is that demand remains strong across our end markets. We are seeing raw material supply issues improve sequentially. We also continued to strengthen our customer relationships and take actions during the quarter that strongly position us for the long term, and we remain very confident in our strategy, and above all, our people.

Let me briefly summarize the quarterly numbers before turning to John Morikis, who will provide commentary on the full year and our outlook for 2022.

Starting with the top line, fourth quarter 2021 consolidated sales increased 6.1% to $4.76 billion. Raw material availability negatively impacted sales by an estimated high single-digit percentage, with about 65% of the impact in The Americas Group. The remaining impact was largely in the Consumer Brands

Copyright © 2001-2022 FactSet CallStreet, LLC

Group, with an immaterial impact to Performance Coatings Group. Pricing in the quarter was in the high single-digit percentage range.

Consolidated gross margin decreased to 39.5% driven by lower sales volume, raw material cost inflation outpacing our price increases near term, and supply chain inefficiencies. SG&A expense decreased to 30.2% of sales. Consolidated profit before tax decreased to $308.9 million. The quarter included $70.1 million of acquisition-related amortization expense.

Diluted net income per share in the quarter decreased to $1.15 per share. The quarter included acquisition-related depreciation and amortization expense of $0.19 per share. Excluding these items, fourth quarter adjusted diluted earnings per share were $1.34 per share.

Moving on to our operating segments. Sales in The Americas Group increased 3% as high single-digit pricing offset lower volume related to raw material availability. Segment margin decreased to 15.1%, resulting primarily from lower sales volume and higher raw material costs, partially offset by selling price increases. Segment SG&A was up slightly as a percent of sales as we continued investing in strategic growth initiatives.

Sales in the Consumer Brands Group decreased 7.8% against a double-digit comparison a year ago. Sales were flat, excluding the impact of the Wattyl divestiture. Adjusted segment margin decreased to 6.3% of sales, resulting primarily from lower sales volume and higher raw material costs and supply chain inefficiencies, which were partially offset by selling price increases and good cost control.

Sales in the Performance Coatings Group increased 18.7%, driven by price and volume increases. Adjusted segment margin decreased to 8.9% of sales as operating leverage from the higher volume, selling price increases and good cost control were more than offset by higher raw material costs, where inflation was the highest among the company's three operating segments.

Let me turn the call over to John now for additional commentary on 2021, along with our outlook for the first quarter and full year 2022.

John George Morikis

Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

Thank you, Jim. And good morning, everyone. I'll provide some additional color on the fourth quarter in a moment, but first, I'd like to summarize our full year.

For the second year in a row, we faced a series of challenges that no one could have predicted. The natural disasters of Winter Storm Uri and Hurricane Ida crippled the industry's raw material supply chain for most of the year. The lack of raw material availability, coupled with strong demand, led to a rapid and unprecedented raw material cost inflation. Labor and transportation costs also escalated throughout the year. And through it all, we continued to battle various complications brought on by the continuation of the pandemic, especially in the fourth quarter.

The 61,000 dedicated employees of Sherwin-Williams, our greatest asset, responded with determination. We did not use any of these challenges as an excuse, but as an opportunity to get even closer to our customers. We focused on supporting our customers' businesses through innovation, value-added services and differentiated distribution. This solutions-based approach resulted in our customer loyalty metrics and new account activity growing significantly during the year. These trends bode well for years to come.

Copyright © 2001-2022 FactSet CallStreet, LLC

While we focused on meeting customers' needs, we also attacked rising costs with aggressive pricing actions in all businesses. Near-term pressure on our margins was significant, but we remain highly confident they will recover just as they have in past cycles as we grow the business and see commodity costs moderate over time. We also continued to invest in multiple long-term growth initiatives during the year.

I'll mention just a few full year metrics. Consolidated sales increased 8.6%, including a mid-single-digit headwind related to raw material availability, to a record $19.9 billion. It was the 11th consecutive year we have grown the business. Pricing for the year was in the mid-single-digit range.

On a segment basis, The Americas Group delivered 8% sales growth and 20% PBT margin for the full year, a solid performance given the challenging operating environment. Pricing was in the mid-single-digit range. Our largest customer segment, residential repaint, grew by a double-digit percentage for the sixth year in a row. Sales in all other customer segments, with the exception of DIY, grew mid-to-high single digits in the year. We also opened 85 net new stores during the year.

Consumer Brands sales were down 10.9% for the year, including a 4 percentage point impact from the divested Wattyl business. This was against a mid-teens comparison that was driven by DIY projects related to consumers' nesting during the pandemic. Pricing was a little less than what we saw in TAG.

Performance Coatings sales were up 22% for the year. Every region and every business unit increased by a double-digit percentage. Price realization was in the mid-single-digit range. Amidst the highest cost inflation in the company, this segment preserved the vast majority of adjusted profit before tax dollars, which decreased $18.1 million or 2.5% from the prior year.

Even with the increase in consolidated sales, we were not able to fully overcome the impacts of raw material and other cost inflation, raw material availability and the Omicron variant in the year. As a result, net income and diluted net income per share were below last year's levels. Adjusted EBITDA for the full year was $3.27 billion or 16.4% of sales. Net operating cash for the year was $2.2 billion or 11.3% of sales.

We put our cash to work, returning a little over $3.3 billion to our shareholders in the form of dividends and share buybacks. We invested $2.8 billion to purchase 10.1 million shares at an average price of $273.18. We distributed $587 million in dividends, an increase of 20.3%. We also invested $372 million in our business through capital expenditures, including approximately $56 million for our Building Our Future project. We ended the year with a net debt to adjusted EBITDA ratio of 2.9 times.

Additionally, we announced three acquisitions that will add to our capabilities: the coatings business of the Tennant Company, the European industrial coatings business of Sika AG and Specialty Polymers Inc. Total return to shareholders in 2021 was 44.9%, which outpaced the S&P 500 and our peer group.

Finally, I'd also like to mention our ESG efforts. We announced and made good progress on our next-generation targets this year. We were recognized for various aspects of our program this year by Newsweek, Forbes and Investor's Business Daily. Given the volatility of the macroeconomic environment over the past two years, our combined results over the period are perhaps a better illustration of the underlying strength of our business.

Since the end of 2019, consolidated net sales grew $2 billion or 11.4%. Gross profit increased $507 million or 6.3%. Adjusted EBITDA increased $211 million or 6.9%. GAAP diluted net income per share increased 26.9% to $6.98 per share. And adjusted diluted net income per share increased 15.8% to $8.15 per share. Over the two-

Copyright © 2001-2022 FactSet CallStreet, LLC

year period, we've returned approximately $6.3 billion to shareholders in the form of dividends and share buybacks.

As far as our fourth quarter, I'll keep my comments brief in order to get to our 2022 outlook. The key themes remain the same as in our third quarter. Demand was strong in nearly all of our end markets. Raw material availability remained a challenge. There was some improvement, but recovery was not as quick as we would have liked. Commodity and other costs remained elevated, and we continued to implement price increases. The new wrinkle was the impact of the Omicron variant, which was meaningful, as we discussed on our call earlier this month.

In The Americas Group, sales growth in the fourth quarter was led by protective and marine, which was up by a double-digit percentage. New residential and property management were up in the mid-single-digit range. Res repaint and commercial were up in the low single-digit range. DIY was down double digits against an extremely strong double-digit comparison.

From a product perspective, exterior paint sales performed better than interior sales, with interior being the larger part of the mix. We realized a high single-digit increase in price in the fourth quarter resulting from our February 1 and August 1, 2021, price increases and our mid-September 2021 surcharge. As we mentioned, a new 12% price increase is effective February 1 of this year.

We opened 35 net new stores in the fourth quarter. Along with these new stores, we continued to make investments in sales reps, management trainees, innovative new products, e-commerce and productivity-enhancing services.

Moving on to our Consumer Brands Group. Fourth quarter sales were basically flat to last year, excluding the impact of the Wattyl divestiture. Sales were up low-single digits in North America, but that was offset by softer sales in Europe and Asia where COVID restrictions were more pronounced. Pricing was positive in the quarter and in the high single-digit range.

Last, let me comment on the fourth quarter trends in our Performance Coatings Group. We continue to see momentum as this is the sixth straight quarter of growth for this business. Group sales increased by a high-teens percentage in the quarter. Price realization was in the low double-digit range, and all regions and all divisions generated growth.

Regionally, sales in the quarter grew fastest in North America, followed by Europe, Latin America and Asia. Every division in the group grew, with nearly all by double digits, driven by robust underlying demand, new customer wins, share of wallet gains and pricing. Packaging was the strongest, followed by coil, general industrial, industrial wood and auto refinish, respectively.

Turning to our 2022 outlook. We see an operating environment with strong demand across architectural and industrial end markets. Customer labor will likely continue to be a governor on growth in some areas. We expect raw material availability to continue improving sequentially, though the trajectory remains uneven.

As supply improves, we stand ready with ample capacity to quickly convert those raw materials to paint. We believe the impact of the Omicron variant on the supply chain should moderate through the first quarter. Any additional impacts from COVID over the remainder of 2022 are hard to predict. What's not hard to predict is our determination. Our role is to influence results, not to simply report them.

Copyright © 2001-2022 FactSet CallStreet, LLC

Looking ahead, we expect to bend the curve in our favor through the very deliberate steps we've been taking. These include arrangements and agreements with existing and new suppliers, prioritizing our product offering to our customers, investments in additional capacity, the acquisition of our resin supplier and actions to retain employees to produce and distribute products.

As the year goes on, we expect to be talking less and less about raw material availability and supply chain issues and more and more about volume growth, sequential gross margin improvement and sequential margin improvement in each of our operating segments.

Our outlook also assumes that the market rate of inflation for our raw material basket will be up by a low double-digit to mid-teens percentage in 2022 compared to 2021. We expect to see year-over-year inflation in all four quarters with the largest impacts likely occurring in the first quarter and gradual reductions each quarter as the year progresses.

We expect all commodity categories to be meaningfully elevated. We expect other costs including wages and transportation to be up in the mid-to-high single-digit range. We are currently implementing additional price increases in all businesses and will continue to do so as necessary.

For the first quarter of 2022, we anticipate our consolidated net sales will increase by a low to mid-single-digit percentage compared to the first quarter of 2021 inclusive of a low double-digit price increase, partially offset by ongoing raw material availability issues.

We expect The Americas Group to be up low- to mid-single digits with North America paint stores at or above the high end of that range. We expect Consumer Brands to be down by high single-digit to low double-digit percentage, and we expect Performance Coatings to be up by mid- to high-teens percentage.

Our full year guidance is heavily second half weighted due to stronger volume, the impact of pricing actions and weaker second half 2021 comparisons. As you'll recall, we began 2021 with great momentum, including first half sales growth of 14.7%; and adjusted EPS growth of 26.4%, before the natural disasters, supply chain and COVID issues derailed the second half of the year.

For the full year 2022, we expect net sales to increase by a high single-digit to low double-digit percentage. We expect The Americas Group to be up a mid-to-high single-digit percentage, again, with North American paint stores at or above the high end of the range.

We expect Consumer Brands to be up a low to mid-single-digit percentage and Performance Coatings Group to be up a high single-digit to low double-digit percentage. We expect diluted net income per share for 2022 to be in the range of $8.40 to $8.80 per share compared to $6.98 per share earned in 2021.

Full year 2022 earnings per share guidance includes acquisition-related amortization expense of approximately $0.85 per share. On an adjusted basis, we expect full year 2022 earnings per share of $9.25 to $9.65, an increase of 16% at the midpoint over the $8.15 we delivered in 2021.

Let me close with some additional data points and an update on our capital allocation priorities. Given volume growth, pricing actions and our ongoing continuous improvement initiatives, we would expect full year gross margin expansion. We expect to see SG&A leverage in 2022 by controlling costs tightly in noncustomer-facing functions. We'll continue to make investments across the enterprise that will enhance our ability to provide differentiated solutions to our customers.

Copyright © 2001-2022 FactSet CallStreet, LLC

We expect to open between 80 and 100 new stores in the US and in Canada in 2022. We'll be focused on sales reps, capacity and productivity improvements, systems, as well as product innovation. We also plan additional incremental investments in our digital platform and the home center channel. These investments are embedded in our full year guidance. We expect currency exchange will be a headwind of about 1.5% on consolidated sales. We expect our 2022 effective tax rate to be in the low-20% range.

Our core CapEx guidance for the year is approximately $415 million. In addition to this core CapEx, we expect to make investments of approximately $450 million in 2022 related to our new headquarters and our R&D facility project. Both depreciation and amortization should be about $300 million each. Interest expense should be about $330 million. We have $260 million of long-term debt due in 2022.

Historically, we've targeted dividends at about 30% of prior year GAAP earnings. Next month, at our board of directors meeting, we will recommend an annual dividend increase of 9.1% to $2.40 per share, up from $2.20 last year. We expect to continue making opportunistic share repurchases. We'll also continue to evaluate acquisitions that fit our strategy.

As we begin 2022, we remain confident in our strategy, our capabilities, and the differentiated product and service solutions we bring to customers. Above all, my confidence in our people has never been higher. Our business remains extremely well-positioned and we're emerging as an even stronger Sherwin-Williams, following the challenges that we've faced the last two years. We remain steadfast in our focus on creating shareholder value.

That concludes our prepared remarks. With that, I'd like to thank you for joining us this morning, and we'll be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Thank you. And our first question is from the line of Chris Parkinson with Mizuho. Please proceed with your questions. Mr. Parkinson, perhaps your line is muted. You're live for questions.

Christopher Parkinson

Analyst, Mizuho Securities USA LLC

Q

Sorry about that. So it seems there are going to be multiple steps to rebuild your margin structure and strive back towards your long-term goals, especially in Consumer and Performance. Just given near-term raw material shortages, hopefully, getting better on a sequential basis, raw material inflation, logistics costs, et cetera, et cetera, all hopefully to be offset by pricing, how should we think about what's actually embedded in your 2022 guidance on margins based on those factors?

And then perhaps more importantly, how should investors recalibrate expectations for the cadence of improvement in 2023 and back towards your long-term goals? Any color would be appreciated. Thank you.

Allen Joseph Mistysyn

Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

Yeah. Sure, Chris. This is Al Mistysyn. And as the 2021 unfolded with a very strong first half and a softer second half, I would say, our 2022 budget is exactly the opposite. We expect continued headwinds, as John mentioned,

Copyright © 2001-2022 FactSet CallStreet, LLC

and raw materials heavily weighted to the first half, but incremental pricing. We talked about TAG going out with a February 1, 12% increase. And we're going out across all divisions and groups with pricing.

So let me start with, when you look at our gross margin, our first half, you'd expect to see slight contraction with sequential improvement as the quarter goes on. And then you'd start seeing gross margin recovery in our second half. And that expectation is across each of the segments. And it's really volume-driven on the architectural side, continued pricing catch-up on the Performance Coatings side, along with the continued strong demand and volume.

And what I would expect to see is some contraction in the first half on operating margins among the segments. But I would expect to see recovery starting in our second half on the operating margins and all segments growing operating margins year-over-year in our second half. And even including TAG even has the potential to get on top of previous years.

And as you know, in an inflationary environment that is our – and you look back at our history, as we see raw material increases, we implement price to offset those raw material increases. And as the price effectiveness continues to improve, we start to see recovery. And then as raw materials moderate and roll over, we see gross margin expansion. And I can point back, as I have in the past, 2010, 2011, 2012, we saw that big run-up in titanium dioxide. We saw our margins contract. And then we saw growth from 2013 to 2016 of almost 600 basis points. We expect to see a similar environment today.

Christopher Parkinson
Analyst, Mizuho Securities USA LLC

Q

That's very helpful. And just as a quick follow-up, just in terms of 2022 demands, let's say, more recently, there's been a little bit of skepticism just given rates, housing affordability, just essentially, the broader inflationary environment. Just from the Sherwin-specific angle and what you're hearing specifically from your stores, what really truly underscores your volume confidence on the macro for TAG and as well as for your ability to further win share on both Pro and big boxes? Just any additional insights would be very helpful. Thank you.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Well, Chris, I think you hit on two very important points there. One is the market, and our position in that market would be the second point. So we believe and the first indicator would be the close relationship that we have with our customers. I'll ask Jim to talk to the macro indicators that give us confidence, in a moment. But I'd say, what gives me the most confidence is the nearly 3,500 sales reps and over 4,000 store managers that we have out there every day feeding our CRM system with data that plays back the incredible confidence that our customers have in this market.

We've had, we believe, a pretty strong run here in a challenging market. But our customers are telling us that as they look forward, demand continues to grow. And if you look across the segments in every one of those architectural segments, the feedback that we're getting is exactly that this is going be a terrific year. Many of our customers would say their pipeline is pretty much full right now and they're looking out into the second, third quarter, taking bids right now. So it's very solid.

But let me ask Jim to give you a little bit on the macro numbers that reinforce what we're hearing from our customers.

Copyright © 2001-2022 FactSet CallStreet, LLC

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Yeah. Thank you, John. And good morning, Chris. As you look across the various indicators that we've always talked about for years now, they're all pointing in a very positive direction, Chris. And I won't go through all of them. But on the residential repaint side, we look at LIRA, the Leading Indicator of Remodeling Activity, that was up high single digits in the fourth quarter and they see strong double-digit growth throughout 2022. The remodeling market index also is at near record levels going forward.

I think on the new res side, when you look there, in addition to John's comments about what our customers are saying, permits and starts have been trending very well since the summer. There's still a big backlog of homes that need to be built, both at the entry level and at the luxury level as well. Mortgage rates, while maybe ticking up a little bit, still are largely supportive, I think.

On the commercial construction side, you've got other indicators, the Dodge Momentum Index, the Architectural Billings Index, all of those pointing in really strong directions. And property maintenance, we're seeing good activity there. So no matter where you look on our TAG business, it feels very strong.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.
A

Yeah, our TAG, and we believe also our Consumer Brands business as well. There's a lot of opportunity there for pricing in the market as well. But one additional point that I'd make in addition to the pricing availability on Consumer Brands is what we're seeing from our contractors. We talk about gross margins and our ability to push that pricing through. This is a market where our customers have confidence in their ability to put pricing in because of the supply/demand dynamics. So we're out putting price in to customers who have confidence in their ability to put price into the market.

I've often said, we typically don't receive thank you notes for putting price increases through, and I don't expect to receive any on this realm. But I will tell you, our teams are very confident that our customers are almost in the mindset of, okay, I need to know what the price increase is going be, so I could push it through. And at the same time, they're deciding which projects they're going to take and which ones they're not. So the dynamics are very powerful.

Christopher Parkinson
Analyst, Mizuho Securities USA LLC
Q

Helpful. Thank you very much.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thanks, Chris.

Operator: Our next question is from the line of Ghansham Panjabi with Baird. Please proceed with your questions.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.
Q

Copyright © 2001-2022 FactSet CallStreet, LLC

Thank you. Good morning, everybody. Yeah, I guess, a somewhat of a follow-up. I know it's very early in the year and there's a lot going on seemingly every week. But can you break out for us what you're assuming in terms of raw material availability for 2022 as it relates to your specific earnings guidance? And I guess I'm referring to volume catch-up and then your own inventory levels as the year unfolds.

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

Yeah. So Ghansham, the availability expectation is that we may see some in our first quarter. We talked about our first quarter being a little bit choppiness – seeing a little bit of choppiness in our availability. It could be low-single to mid-single digits. But the commitment that we've gotten across our existing supplier base and our new supplier base really gives us great confidence that we'll have the raw materials available to us to meet the stronger demand we expect in our first quarter, and I should say stronger production in our first quarter.

So with the prioritized product line that John mentioned, we are going to build in a significantly more inventory to the end of our first quarter compared to year-end 2021 and versus last year, but not to what I would say more historic levels. So the additional inventory for TAG that we put in at the end of the year because of the sales shortfall will help us early on. But you're talking 10 to 15 days of inventory. The real growth is because of the excess capacity that we have put in, and that being filled up with raw material supply and really getting ourselves in a better inventory position.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Ghansham, if I could add, I think that was a terrific response by Al. I think looking long term, there's some choppiness here short term. We understand that. But when we look long term and why we feel our company is going to really outperform, and we often talk about this coiled spring. I look at the point that Al just mentioned, and I'd like to just add a couple, if I could. There certainly are opportunities to this point about the additional capacity that we've just brought on. We've got more that's coming on that is important.

The other thing that I think is important to understand, that we are not complacent. You look at how we get more efficiency and more productivity out of our plants, there's work to be done here, but we're well underway in a simplification process of our products to ensure that our responsiveness, and I think this would be a question some shareholders might have, as we come through this, how do we ensure that if anything like this were to happen again, that we're the horse to bet on. And we're not sitting here waiting just trying to get out of the current situation. We are looking at, how do we build in the response as a result of this experience to ensure that we avoid these types of issues going forward?

So it does include the resin company that we bought. It does include the capacity that we just bought. But an equally important one is the simplification of many of our product lines to allow us to be more responsive, more adaptive to the situation, if it be from raw material suppliers or raw material products, or to be able to move different resins around to be able to supply our customers. So there's a lot of really good work, heavy lifting that's taking place that we're not going to see today but is going to help us. It's going to help us not only in situations like this in the future, but to be more responsive to our customers' needs and more reactive to opportunities going forward.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Copyright © 2001-2022 FactSet CallStreet, LLC

Okay. That's very helpful. And then, realizing this is a difficult question to answer, but all the various notes on the supply chain, there's so many different issues that your customers cite in their earnings calls and so on and so forth. I'm just trying to gauge, if you are able to produce more paint and you just wave a magic wand and you're able to get what you need from a raw material standpoint, is there still going be a fair amount of choppiness you think in terms of volumes on a quarterly basis because of the other constraints that customers are citing, including appliances, labor, et cetera?

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Well, I think, we're going to have raw material – our raw material position is going to improve. It's improving now. And as Al mentioned, between our current and new suppliers, we've got confidence that this is going to improve. That's why I made the comments earlier. I'd say it this way, we've always hated talking about weather. I would associate our feelings with what we're talking about regarding raw materials to feel like weather. We want to get this behind us and start talking about growing our business and talking about the incredible results we're going to post. And we're going to have the raws to be able to do that.

Now are there other issues that we're going to face, like transportation? And the fact that we're going to be in a race to build product through the first quarter, but we're not going to be able to build the inventory that we typically build in the first quarter to be as responsive as we'd like. So there is going be some hand-to-hand combat, if you will, as we get through the year. It's going to get better, but we're going to be racing to fill the pipeline here.

And we would have liked, if possible, to have built more inventory in the fourth and first quarter. But we're going to be in a position to have more raw materials and more capacity to be able to respond. We'll build some inventory coming out of the first quarter, but it won't be to the traditional level that we would like going into our paint season.

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

Yeah. Ghansham, the other thing I'd add there, I think, when you look at – the past two years have been really challenging. And because we've got a long-tenured and experienced management team, we've been able to meet those challenges and produce solid results. We believe we're paid to influence results and not simply report them. And I believe our management team is doing that. If you look at the midpoint of our 2022 adjusted EPS, that yields a 10% three-year compounded average growth rate. And while doing that, we continue to invest in the future growth of the company and returning a significant portion to our shareholders in the form of dividends and share buybacks.

So I think what you're going to see is our volume, and I'll look at it, maybe architectural volume in our first half. My expectation is, because we had such a strong first half of 2021, that our architectural volume will be flat to down low single digits. It's really our second half, and the expectation is, all the things that our global supply chain team is doing to get past – and procurement teams, get past raw material supply, get more consistent transportation and logistics set up. Our second half, we're expecting to be up mid-to-high single digits in volume. And that's really what's going to drive the operating margin improvement across our architectural businesses, TAG and Consumer.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thanks so much.

Copyright © 2001-2022 FactSet CallStreet, LLC

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

A

Thanks, Ghansham.

Operator: Our next question comes from the line of Bob Koort of Goldman Sachs. Please proceed with your questions.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much. Al, maybe following on that last response, so just want to make sure I understood it properly. I think you said maybe your architectural business would be down in the first half. I think you're implying revenues. And I'm wondering, given the pricing cadence through 2021 and then again the February price hike coming, why it would be so weak?

And then even more broadly, for all of 2022, I think the guidance you gave on TAG revenues seems to match almost what you would expect in pricing. So seems like there's maybe not a whole lot of net volume. Maybe you could give us a little more color on why that would be, given the range on production this year?

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

Yeah. Bob, to clarify, I was highlighting architectural volume in our first half to be flat to down. And it's because we had such a strong start to our first half last year. If you look at our first quarter, Consumer was up 25%, the North America paint stores were up high single digits, and TAG was up high single digits in our first quarter. So I was referring to volume.

And our full year TAG being up mid-to-high single digits, with the comment being that our North America paint stores would be at or above the high end of that range. If you annualize the price increases, you're going get to a mid- to high-single digit. So volume I would expect to be up in our North America paint stores to be low to mid, if that makes sense.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's helpful. I appreciate that. And then I'm just curious if you guys have any insight on – I'm trying to figure out if there was double ordering, if there were maybe some false bookings throughout 2021 as your customers were scrambling in a scarcity mode. Is there any risk? Or how do you – do you have confidence that there wasn't some of that and maybe the underlying demand is slightly weaker than you'd expect, how do you get that comfort?

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Bob, that's not a concern for me at all. And we've got tremendous comfort and confidence that the demand is real. And as we look at the bidding activity that's taking place, the job requests that are taking place, we can verify that. So the demand is real. We've got great confidence in that.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Copyright © 2001-2022 FactSet CallStreet, LLC

That's clear. Thanks again.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Yeah. Thanks, Bob.

Operator: Our next question is from the line of Truman Patterson with Wolfe Research. Please proceed with your questions.

Truman Patterson
Analyst, Wolfe Research LLC
Q

Hey. Good morning, everyone. Thanks for taking my questions. First, look, I understand raw material inflation is kind of a moving target. But if we took a snapshot as we sit today in January, I'm hoping you can discuss, by fourth quarter 2022, whether raw material inflation embedded in guidance is still up year-over-year or down. And then for your full year 2022 low double-digit to mid-teens inflation, could you just break out expectations by your segments?

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Yeah. Truman, what I would say is, for the full year, we're expecting, as we said, that low double-digit to mid-teens inflation. It should be the highest in the first quarter, and I would expect it to sequentially improve as the year goes on and the comparisons get a little bit easier. But I think even in our fourth quarter, you're likely to see us up low- and mid-singles in the fourth quarter. I think the strong demand that's out there is helping to support the inflation that's out there. I would again expect, by segment, probably to still see pretty highest inflation in our Performance Coatings Group.

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.
A

Yeah. Truman, the only other comment I would make on that to just reiterate, still, we talked about last year, the increase in raw materials was heavily weighted to our Performance Coatings, and I'd say that about 60%. We expect to see a little bit less than that this year. But also, just you said it, our line of sight on raw material inflation is probably at best two quarters out, so looking at the third or second half of this year, we'll continue to monitor the basket as we have throughout 2021, and if we see any change or increase in inflation, we'll react with pricing quickly like we did last year.

Truman Patterson
Analyst, Wolfe Research LLC
Q

Okay. Okay. Thanks for that. And then in the fourth quarter, TAG margins fell 660 bps year-over-year. And I know that volume leverage is a key component to your operating model. I'm hoping you can help us parse out how much of this was due to volumes declining, we'll call it, high single digits versus this price/cost dynamic that's going on?

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.
A

Yeah. Truman, as I've said in the past, volume is the single biggest driver of operating margin improvement, and that is especially the case in our TAG organization. And I would say that is almost 100% driven by the volume

Copyright © 2001-2022 FactSet CallStreet, LLC

decline. And if I may, I'd just like to recap the fourth quarter across each of the segments just to kind of talk about this year, level set, and move on to 2022.

But if you look at TAG, as I mentioned, it's all volume-driven, that margin. If we look at Consumer, it was better than our sales guidance but primarily due to non-paint sales increasing. And if we look at the paint gallons being less than what we expected, that again, that volume really impacts our operating margin. But we also had, because global supply chain is embedded in our Consumer Brands Group, because of availability, we didn't meet the production plans that we had planned. So the supply chain inefficiencies and higher raw material costs probably equally impacted the Consumer segment. So volume is the number one driver of that impact, but then the other two are probably equally weighted.

And then you get into our Performance Coatings Group. Nice sales gain. But again, the raw material increase quarter-to-quarter that we saw and for the full year was really about 60-plus percent of the sequential increase. So they took the brunt of the incremental increase in raw materials. And that really drove what the impact on margins. And as we said, this is the one segment that has more work to do on pricing to chase the increase in raw materials. They're out, as I mentioned earlier, with additional pricing in our first quarter. And our expectation is that we will get on top of raw materials this year and see operating segment margin improvement in our second half.

Truman Patterson
Analyst, Wolfe Research LLC
Q

Hey, Al, for clarity, I lost you a little bit on the TAG segment commentary. But for clarity, the overwhelming majority, almost all of it, was entirely due to the margin decline, not dollar decline, was due to that lost volume leverage?

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.
A

That's right. That's right, Truman.

Truman Patterson
Analyst, Wolfe Research LLC
Q

Okay. Wow. Okay. Thank you.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thanks, Truman.

Operator: Our next question comes from the line of Jeff Zekauskas with JPMorgan. Please proceed with your questions.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Thanks very much. Still want to pursue the TAG guidance for 2022 of up mid-to-high single-digit percentage. I think you said earlier that your volume might be up low- to mid-single digits. I mean, if your prices are going to be up, some high single-digit number, I realize there's a tiny bit of negative currency, I don't see how your TAG range should be mid- to high-single digits unless you expect flat or negative volume growth, no?

Copyright © 2001-2022 FactSet CallStreet, LLC

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.
A

Yeah...

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

I don't know how – go ahead. I'm sorry. I apologize. Go ahead. Yeah.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.
A

...that's all right. What we talked about is our North America stores being up at the high end or above the high end of that range. And if you look at, so you're thinking 8% to 12%. If you look at the paint stores group price increase, the cadence of the increase is, you think about how we annualize the price increases in paint stores, we're going to be up low double-digit in our first quarter, high single-digit in our first half. And that'll moderate as we go through the second half to get to a mid- to high-single digit. So that's how I get to kind of a low to mid volume.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Yeah. I don't see why it would moderate really in the third quarter, maybe it would – I mean, to that level. But to put that aside, your SG&A costs I think were up 2% for the year. So was it that there was a lagging effect to whatever inflation you're experiencing in SG&A and you expect it to be up much more? Or can you talk about your SG&A inflationary expectations in a little bit more detail?

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.
A

Sure. We look at – although we don't really provide the full guidance by line, but to give you some direction, we do expect to get leverage on our SG&A. As the year progresses, we'll continue to invest, as John mentioned, in 80 to 100 new stores in TAG plus in our digital platform. We'll continue to look for opportunities to invest in the Pro paints within our Consumer segment, another key initiative there. And then servicing programs through our Performance Coatings Group, but we're still going be very focused on controlling our noncustomer-facing SG&A.

And I would say, if you look at how our volume unfolds throughout the year, the first half will be slower than our second half, like I mentioned. So we expect to see more leverage in our second half on SG&A than we see in our first half.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Okay. Great. Thank you so much.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thanks, Jeff.

Operator: Our next question is from the line of Mike Sison with Wells Fargo. Please proceed with your questions.

Copyright © 2001-2022 FactSet CallStreet, LLC

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hi, guys. Good morning. Just curious, in TAG, given you don't have as much volume or gallons as you want, how are you sort of allocating those amongst customers? And are there particular areas of the country more profitable? Can you maximize mix and profitability as you think about where to put your limited volume at this point?

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Yeah. There's a lot of really good work that's taking place, Mike, and it's a pretty good observation on your part, because we've had to make some decisions, and some of those decisions include paring down the product line to ensure that we have the products that were needed. We've really I think done a terrific job in utilizing the resources or the raw materials that have become available. And we treat those precious raw materials just as that. So we're manufacturing products that could best fit the needs of our customers. And there are times when we're giving customers a product that will fit their needs, but it may not have been the product that they came in to get. And so, we're working with them.

And I would say this, as we exit this, the line of sight that we've established and the relationships that we've built with our customers is one of the reasons that we're so excited about how do you turn something bad into something good. The relationships are stronger because our teams are working with our customers in a very unique way. They may come in talking about wanting a product and our team's work with them to understand, what is the project? What are you doing? Let me get this product for you. And we're keeping our customers in paint. And that's been a big mantra within the TAG organization is keeping our customers. And that responsiveness, particularly at the store and rep level is a point of differentiation.

We've got a number of stores out there, and we're leveraging the inventory and availability in those stores in a way that, quite frankly, most companies couldn't do. And I'm really proud. We talk a lot about one Sherwin, a mentality of doing what's best for the company. And so, there's a sharing of inventory as close to the customer as possible to be as responsive as possible. So we're trying not to get to the decision point that you make about which customer to serve. What we're trying to do is get to the point where we're answering the question of what product can we get this customer to keep them moving, keep them making paint, and keep them providing for their families.

And as a result of that, our view of their projects has improved. They're sharing more information with us. And that's why, when we were asked earlier about the confidence that we have in the demand, why we think it's as solid as we believe is, our customers as we've worked through this are sharing more with us than they ever have before. They trust us. We're working with them, and we're partners. And so, we're giving them products that get them off their projects onto the next ones, next project, and they're making money doing it.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Got it. And as a quick follow-up, given that our Cavs have surprised to the upside, one game out of first place. But if you were to see upside or where you think you guys can surprise to the upside in 2022, where do you think you can do that, and particularly, what's in your control to do that?

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Copyright © 2001-2022 FactSet CallStreet, LLC

Well, we're going to surprise. I will tell you this, if you look back over the last two years, while we've generated over $5.6 billion in net operating cash and we've returned $6.3 billion to our shareholders in the form of dividends and share buybacks, we've also been investing in this business, Mike. So in our North America paint stores, we've opened 133 new stores, net new stores, 180 new reps. We've added probably over 2,800 management trainees to make sure that we have a really strong future of pipeline.

We've invested in our Pros Who Paint with our Consumer Brands partners. On the Performance Coatings side, we're adding services and solutions that we really believe our customers are willing to pay for because it's helping them make more money, and that's what we're focused on. We've not talked about this yet, but we've been investing in innovation. And some might say, well, geez, how can you invest in innovation? To your first question, when we're sitting here with raw materials, having to make tough decisions about which products we're going to make, would you be investing in innovation? And the answer is, yes. We are investing in innovation.

In fact, if you look over the last 10 years, we've averaged probably over 20 new products per year. And that's really important. It's an important part of our strategy. And I know that firsthand because I can remember when I was a store manager and just learning to sell product, and those new products made a pretty average salesperson a much better salesperson. I would tell you, it helped me a lot. And I think it gave me confidence and it gives our people confidence.

And most importantly, I think it gives our customers confidence. And so, we're investing in these products. And these products are solutions that our customers use to help their business. And we think we're uniquely positioned to be responsive to those customers' needs, in both the needs they have that they can articulate and sometimes the unarticulated, the things that they may not know.

And so, it should be no surprise that one of the surprises that we have coming down the pipe include breakthrough technologies in areas of durability, scuff resistance, mar resistance. And it's clear, with the surge in COVID variants, a key emphasis in the market right now is keeping surfaces clean. And so, you'll be hearing about some of these surprises, as you say, of our self-cleaning technology platforms as we move forward. But right now, naturally, we're focused on that precious raw material allocation and servicing our customers. But rest assured, that's an important part of what we're doing.

I think the other areas you should expect that might surprise is the output of the capital expenditures that we're making. We've talked about capacity utilization and incremental capacity that we've added. We've added $670 million over the last two years. We're going to get every ounce of money out of those. We're going to put those assets to work, and we're going to use them hard.

I also think the, and this is a bit longer term, but as you're asking about surprises, I think people will be surprised as we've invested in our new R&D facility, and I just mentioned innovation. While that's not going be in the short term, it's going be an important part of what helps drive our company forward because I think the collaboration that we're going to get from our wonderful technology people is really going to be exciting.

And then, I guess, just thinking off top of my head, the last thing that I would add would be the utilization of the Specialty Polymers asset they we acquired. I think our ability to respond and our ability to really outperform the market and really derisk some of what comes inherent from the Gulf Coast is, we believe, going be a differentiator as well.

So those are things, Mike, I want to talk about. There's a lot more that we have up our sleeve. We're pretty excited over here about what we're working on. We could talk about themes like what's coming down the pipe in

Copyright © 2001-2022 FactSet CallStreet, LLC

digital and some of the other areas, but I've got a lot of confidence that while we're excited about what we've accomplished in this quarter, we would like to have had a better fourth quarter. But I'm really excited about where we're headed. And I really do believe that the best is ahead. We're just getting started.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

All right. Thank you.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

A

Thanks, Mike.

Operator: Our next question comes from the line of Steve Byrne with Bank of America. Please proceed with your questions.

Steve Byrne
Analyst, BofA Securities, Inc.

Q

John, you just mentioned this Pros Who Paint. What exactly is that initiative? How can you help Lowe's capture more paint contractor business? And do you see any risk from a recent initiative at Home Depot to do something similar?

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Well, we respect all our competitors, Steve. So we don't just stick our head in the sand and say, nothing's a risk. In fact, we often talk about a healthy paranoid life, which means we take everything as serious and nothing for granted. But what the – the Pros Who Paint is an initiative that really drives effort towards these contractors who paint as a part of a project. So our stores are focused on the painting contractor, those that wake up every day with a goal of applying paint.

There's a whole host of contractors out there. They could be remodelers or, in fact, I would say, nearly every project out there, nearly every project, ends with paint on the project. And so, there are customers that prefer a different shopping environment than a paint store. And the reason is they might want to pick up drywall, they might want to pick up cabinets, they might want to pick up plumbing, whatever it might be, and so they choose their preference to be a home center platform.

We've got a terrific relationship with a number of our Consumer Brands' customers to focus in on this Pros Who Paint. And we believe that there's a terrific opportunity, in many cases, to apply what we've learned through our TAG business, both in services, in actions, as well as product technology to bring and to help our customers better penetrate those customers that prefer that format.

And while we have had some very limited success in that through our stores, I'd say that the terrific opportunity for us is to have much greater penetration through our home center partners, just as they may have had some success with painters. We think by kind of looking at the market and finding these opportunities and really putting the effort in products, services, all the different unique nuisances on helping those customers make more money, will ultimately benefit everyone.

Copyright © 2001-2022 FactSet CallStreet, LLC

Steve Byrne
Analyst, BofA Securities, Inc.

Q

And then just one more on this year-over-year issue with respect to TAG. You noted the year ago volumes were very strong and you have that year-over-year headwind. Is there a component of that year-over-year volume drag that is also has a mix shift impact on price? If the year ago volumes were more DIY and TAG, did that result in a price benefit that is a year-over-year drag that is also something that's being reflected in the guide?

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

No. I wouldn't say that's the case, Steve. But when you bring up mix shift, where I jump to is, wanting to clarify that what we are experiencing is a very positive mix shift. Our highest quality products are the ones in greatest demand. And you could talk about a lot of issues. One we've not talked about yet is labor. And when you talk about painting contractors trying to get as much done as possible, they are all very well aware that getting the most out of a project, getting in and out with less callbacks, being able to go back and touch-up, if you will, getting the lowest priced gallon of paint, is not the answer. In fact, just the opposite.

And we do believe that part of this specialty store experience, and quite frankly, in many cases, what we are either now or will be bringing to our home center partners allows our contractors to be more productive. So again, we're looking at helping our contractors make their labor, some of whom may not be as experienced as they would like, we're helping to make those laborers much more productive and more professional in their output or their finished products than they would in a lower quality beyond the paint.

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

Yeah. Steve, the only thing I would add is, just as a reminder, DIY relative to paint stores is probably about 10%. When I was talking about architectural volume in our first half versus a difficult comp, that included both TAG and Consumer. And Consumer had a...

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

25%?

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

...25% growth in their first quarter last year.

Steve Byrne
Analyst, BofA Securities, Inc.

Q

Okay. Thank you.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

A

Thank you, Steve.

Copyright © 2001-2022 FactSet CallStreet, LLC

Operator: Our next question is from the line of Arun Viswanathan with RBC Capital Markets. Please proceed with your questions.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question. Good morning. A lot of the questions, I guess, have been asked. So maybe I'll just ask a couple of questions on a particular couple of verticals. So could you update us on what you're seeing in commercial construction and MRO? I know those are markets that had kind of lagged during the pandemic. Has there been any improvement there? I imagine not, just given kind of the lingering effects. But maybe you can just address that first.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Underlying demand, I'd say, in commercial is solid. Sales, we've been challenged in some of these areas as we've been pumping through availability of product. But I'd say, it feels pretty good. And the reason I say that, Arun, is that these projects are beginning to come back online and reaching the paint stage in many cases. Our customers in this space have reported some of the labor constraints that we've talked about, they're not only impacting the paint business.

So these guys are waiting for drywallers who may be fighting for more labor to get the drywall done sooner. And you keep moving up the food chain. So it's having an impact on the entire flow of the project. But as Jim mentioned, if you look at the Dodge Momentum Index, it's strong and we have a lot of confidence that it will continue.

I'm sorry, the other segment you asked about was – Oh MRO from a – well, I'd say maybe on a broader sense, we could answer MRO because I think it also fits this, but maybe I could help you with protective and marine because it fits underneath that very well. Our business here was up and very strong. We were up double digits. And there's a lot of really good work here.

We have spoken about our strength in petrochem and the opportunities there. The work that we've been doing in the adjacent markets is beginning to pay off. We're excited about that. And as the government spending on infrastructure continues to work its way through, while it may not be immediate, if you look longer term, we're really well-positioned for that and working hard to capture that as well, so feeling really good.

If you look at the professional side of every TAG segment that we have, we've got tremendous confidence. It's a very strong market from a demand standpoint. And as I mentioned, I know that from my years of experience, you know that when pricing is flowing through from us to our customers as well as it is, and from them to their customers, because their customers simply want the projects done and they're willing to pay to get it, it's an indicator for us of the strength of the market.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks. And just as a follow-up, maybe I can just ask about free cash flow and uses there. So it appears that maybe working capital could be a drag as you kind of sell higher priced inventory and raws. Is that right? Or is it building inventory that would actually maybe benefit working capital as you move through 2022? And so, could you just help us understand free cash flow growth in 2022 expectations? And then uses thereof, I mean, have you

Copyright © 2001-2022 FactSet CallStreet, LLC

seen valuation multiples remain elevated, and thus, most excess cash will be used for buybacks. Is that how we should think about free cash flow and its use here? Thanks.

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.
A

Yeah. Arun, I think what we're expecting is that we'll generate a slightly higher net operating cash in 2022 with the improvement in net income, to your point, partially offset by the increase in working capital. We expect to end the year with significantly more architectural inventory gallons than we ended in 2021. Plus, you're correct, there's some inflation there.

As far as CapEx, as John talked about, we expect that to be about 1.9% or $415 million plus another $450 million for the Building Our Future projects. That does not include incentives. So we'll see some cash out less than that $450 million.

Dividends, we expect a net 9% increase to $2.40. That's about a $630 million number, up 8%. So your free cash flow is going to go backwards. But as far as M&A is concerned, when you look at our debt-to-EBITDA leverage ratio, it was up to 2.9 at the end of this year. Our forecast is really for the debt to EBITDA to approach the high end of our range. So 2 to 2.5 times, we expect debt to be flat and really what's driving that leverage ratio down is the increase in EBITDA.

So from a balance sheet standpoint, we're going have capacity to acquire, and we're going to continue to pursue acquisitions that fit our strategy. And we do expect to close the previously announced Sika acquisition in our first quarter. And then you're right, absent additional M&A, we're going to buy our stock back. We're going to continue to be very consistent in our capital allocation philosophy, and we're not going to hold cash.

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Thanks.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Yeah. Thanks, Arun.

Operator: Our next question comes from the line of Mike Harrison with Seaport Research. Please proceed with your questions.

Michael J. Harrison
Analyst, Seaport Research Partners
Q

Hi. Good morning. Was wondering if you could break down the raw material situation a little bit further for us. How do you see some of these specific raw material baskets behaving this year? As you look at resins, pigments, solvents, additives, and packaging, are you still seeing some of those go up significantly while others are stable or maybe moderating?

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Copyright © 2001-2022 FactSet CallStreet, LLC

Yeah. Mike, a couple of comments there, I would say. In 2022, I think the biggest increases we're still expecting will be monomers, resins, solvents, and packaging. We look at propylene as we've often talked about. That really is critical to about 60% or so of our raw material basket. There's been a little bit of a disconnect here recently. We've seen propylene ticking down, but we haven't necessarily seen it in the things that we're buying that come from that feedstock. I think part of that is because of the strong demand environment that we're in.

I think that also on the TiO2 side, we're seeing that tick up as well. Inventories remain tight given the strong demand, but we feel very good about our supply of TiO2 given the really strong relationships that we have with our suppliers.

Michael J. Harrison
Analyst, Seaport Research Partners
Q

All right. Then my other question is on the COVID situation. It seems like two weeks ago, that was kind of dominating the conversation. Maybe just give us an update on how you're seeing the Omicron impact playing out relative to where you were two weeks ago.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.
A

Well, I'd say it's improving. We're no different than what you would see in the marketplace itself. So we saw the same spike and kind of decline that the rest of the country saw. So we are excited to try to get this behind us, as we mentioned earlier, Mike. We're tired of talking about this stuff. I don't want to talk about COVID. I don't want to talk about raw materials. I want to talk about growing sales and growing profits, so we can try to give you a forecast in what's happening, but we just kind of do what we do. We've got a lot of determination on this side, backed up with a lot of skill and scar tissue. And I'd rather really not even answer this and just tell you we're going to fight through this. That's what we do.

Michael J. Harrison
Analyst, Seaport Research Partners
Q

All right. Fair enough. Thanks very much.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thank you, Mike.

Operator: Our next question is coming from the line of David Begleiter with Deutsche Bank. Please proceed with your question.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you. Good afternoon. John, Al, just looking at Q1, how should we think about the improvement for the growth in TAG earnings versus Q4?

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.
A

Yes. So, David, if you look at our fourth quarter in TAG, I talked about the volumes and the impact there. When you look at it coming into our first quarter, we're still going to see elevated raw material costs, really the highest

Copyright © 2001-2022 FactSet CallStreet, LLC

cost quarter for the year is our expectation. We do expect our TAG sales to be up by a low- to mid-single digit, which tells you with the higher price that our volumes are going to be backwards, which again is going to put pressure on our margins.

But when you look at it sequentially, we do expect to see improvement in our dollars and in our margin. It's a small quarter, so any driver of volume, specifically when we look – talk about the first quarter and fourth quarter, we talk about exterior sales in the Southeast and Southwest driving the performance. And assuming those hit the forecast we need to hit and expect them to hit, we should be ahead of our fourth quarter TAG EBIT margin and profit dollars.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Great. And just briefly, John, looking at price realization on announced price increases, this cycle versus prior cycles, it seems to be doing a little bit better. Why is that? And is it sustainable going forward?

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Well, I think for all the reasons, David, that we just talked about, but actually maybe a little more. I'd say it's certainly a market where supply and demand is such that our customers have the confidence that speaks to the demand. But I would also say that our teams, if it's in our consumer business with Todd Rea and his team working really hard to help our customers be more successful or in our TAG business with Heidi Petz and her team aligning to make sure that our customers, I talked earlier about keep our customers in paint, working hard to develop products and services and have them at the right place at the right time to be able to do that or Justin Binns on our Performance Coatings side.

I mean we're not just simply reporting. We're not just responding. Customer wants this. We don't have it. That's not who we are. What we're trying to do is influence as greatly as possible. So we're aligning closely with our customers. We often talk about running to the center of the fire. We're running to our customers. We're trying to understand what is it that they need, how do we respond the best as we can? Yeah, there's challenges. What do we do to keep you in paint, to keep you moving?

And as a result of that, I think while we're trying to help our customers to be successful and if it's a public company helping them to reach their goals, their numbers or a private company, who is just trying to feed their family, our goals are aligned with their goals. And when we do our jobs, we don't ask to get fat and crazy with money. We ask for our fair share for our shareholders while we're helping them. And that's the focus that we have. And because I think we're working really hard to do that and focusing on their success, we're having more success in executing the price increases.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you very much.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

A

Thanks, David.

Operator: Our next question comes from the line of P.J. Juvekar with Citi. Please proceed with your question.

Copyright © 2001-2022 FactSet CallStreet, LLC

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. Hi. Good afternoon. John, last year, many projects got delayed with rising lumber and steel prices. And lumber, after declining in second half of last year, the prices are on the move again and have gone up this year. So do you think that's a concern for construction, remodeling as project costs have gone up significantly?

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

No. I don't. If you look at the lira as an example and other indicators that we look at, P.J., there's a very strong demand. It's a strong backlog. And I've actually heard people, including one of them on my staff, namely my CFO, who bought an item that was going be a slight delay in getting it and the price was variable. Now, not everyone may have that patience or ability to just say, okay, I want it, I'll pay whatever the market is at that time.

But there are a lot of people out there that have been pushing off the remodel of their home or the addition that they need or an area that requires remodeling because it's either aging in place or the home itself needs to be fixed. And many of them, quite frankly, are looking at it with the idea that prices are going up, I want to get this done and get the best price that I can right now because it looks like this may continue. But I would tell you that I think your question that you're asking, once, again, it comes back to demand. Demand is very strong.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Great. In light of time, I'll pass it along. Thank you.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Thank you, P.J.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

A

Thanks, P.J.

Operator: Our next question comes from the line of Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Thank you for taking my question. Al, I think you addressed sequential earnings in TAG already. But I'm tempted to ask about Performance Coatings in that regard. So, 4Q into 1Q. If we look at history, I think there are examples of that segment trending, flat, up and down in 1Q versus 4Q. Do you have a strong feeling of directional sequential trend in performance for 1Q 2022?

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

Yeah, Kevin. I do believe we're going to see sequential improvement. I think that team, for a couple of reasons. First, that team has done a terrific job of putting in price increases aggressively throughout 2021 and the need to

Copyright © 2001-2022 FactSet CallStreet, LLC

go again in 2022. There's no backing off on that team. The discipline around knowing they need to get the price and getting it, they are. Along with the volumes that we're seeing, we talked about our first quarter being up mid to high-teens with the high or low double-digit increase in price in our first quarter. That tells you volume should be low to mid. And I think that's going to help drive that improvement as well.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Excellent. And then, I wanted to follow up on the three acquisitions that you referenced. Can you talk through the financial impact of those deals recognizing that they're in various stages of closing? For example, what is the contribution to sales that you're thinking about that's embedded in your guidance for the first quarter?

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

Yeah. For the first quarter, you know what, I would look at it net, if you look at the ANZ divestiture net of acquisitions, it would be an immaterial headwind. Sika, we don't have on first quarter or expect to have on our first quarter. So, you're really talking about Tennant and SPI and net of ANZ, it's immaterial.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Tennant was more of a technology buy. We're going to – we acquire that to try to take that technology and grow with throughout the company. It's a pretty small acquisition, but it does give us an opportunity. And to Al's point, the Specialty Polymers is more internal manufacturing.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Okay. Thank you very much.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

A

Thanks, Kevin.

Operator: Our next question comes from the line of Greg Melich with Evercore ISI. Please proceed with your question.

Gregory Scott Melich
Analyst, Evercore ISI

Q

Thanks. I wanted to follow up on the impact of volume and ROS on the gross margin. So if we look at last year holistically, would you say that ROS were half of the 450 bps pressure and volume was the other half?

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

Yeah. I think it may be a little more skewed on the raw material side. And here's why I would say that, Greg. We saw raw materials really ramp up in the second half of the year and not having pricing really built in to cover that until we got into August 1. We got into September 30 on TAG. And then, it was heavier on our petrochem basket and really impacted Performance Coatings. So I think ROS really impacted a little bit more because the dollar – we couldn't offset dollar for dollar. We were close, but we couldn't offset it. And as that impacts us, you really see

Copyright © 2001-2022 FactSet CallStreet, LLC

a margin decline. In the specific though to like the fourth quarter, the TAG volume miss and TAG being down high-single digits really would have been the heavier dragger in our fourth quarter.

Gregory Scott Melich
Analyst, Evercore ISI

Q

Got it.

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

But I think if you look at across the year, it's a little heavier ROS.

Gregory Scott Melich
Analyst, Evercore ISI

Q

ROS would still be the driver. And I guess the follow-up is sort of looking back at history and sort of how we get back to the margins we had in 2020. I think when you look back at that last cycle in 2011 and 2012, it took two years to get back to where you were. Do you – has the business or the company changed enough or the world that you'd expect that to happen faster or slower the cadence of recovery?

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

I do think we're a different makeup of the company than we were back then because of the Valspar acquisition. But I don't think that you look at the businesses within our Performance Coatings Group and the strategy around that and where we can differentiate and get paid for that. I still think that two-year cadence is applicable.

And the other thing I'd highlight is TAG is still over 50% of our sales. And you look at the strong volume that we expect in our second half, and with the pricing activities that have taken place and what we have going in, we have a real opportunity, not only to surpass. We certainly feel like the second half of this year, we'll surpass 2020 – or 2021, but really approach the 2020 operating margin. So I think at TAG, we could be there. I think the other two segments have more work to do.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

But, Greg, I would add this that we've learned an awful lot. And I would say with that learning came incredible conviction. When there were some of those delays and it took a little bit longer, it becomes tougher to get it as time goes out. So I agree with Allen, and I think that those are good guidelines, but I'd also say that there's a lot of determination and conviction. We're going to push that as hard as we can.

Gregory Scott Melich
Analyst, Evercore ISI

Q

That's great. Good luck, guys.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

A

Thanks, Greg.

Operator: Next question comes from the line of John Roberts with UBS. Please proceed with your question.

Copyright © 2001-2022 FactSet CallStreet, LLC

John Roberts
Analyst, UBS Securities LLC

Q

Just a quick one here, guys. New commercial construction paint is bid pretty far in advance of when the buildings are complete and painted. Have you been able to go back and reprice that? Or has that just have to roll through over time?

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

There's not a single answer for that, John. In some cases, there are opportunities to adjust in many of them. But in some cases, there's not, and so it's a case-by-case basis.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. Thank you.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

You bet.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

A

Thanks, John.

Operator: The next question is from the line of Adam Baumgarten with Zelman. Please proceed with your question.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Hey. Good afternoon, guys. Do you expect to bring back some of the SKUs you rationalized as the raw material supply improves in the back half? And if that's the case, do you expect that to have a negative impact on margins?

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Well, what I would say is that it's not just going be going back to business as usual. They'll go through a very disciplined approach. And the question's going be if we survive this long without it, why do we need to bring it back? So we want to manage our inventory and our working capital very closely. So my answer would be that there's a disciplined approach, and if, in fact, you see a working capital investment, it's because there's the proper return that comes along with that.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Got it. Thanks. And then just thinking about CapEx maybe beyond 2022, do you anticipate any additional headquarter-related CapEx in 2023?

Copyright © 2001-2022 FactSet CallStreet, LLC

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

Yeah, I think if you look at what we're spending so far, we are going to see another similar amount in 2023 and then have it drop off in 2024.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Great. Thank you.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

A

Thanks.

Operator: Our next question is from the line of Garik Shmois with Loop Capital. Please proceed with your question.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Hi. Thanks. Just one question for me. Just to be clear on the full-year guidance in pricing, are you assuming any additional pricing is needed beyond what you announced for the first quarter?

Allen Joseph Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

A

I'd say in TAG, the assumption is that there's no additional. I think within Consumer, that will roll in, but I don't expect – there's not in our guidance additional. Performance Coatings is a little different just because of the way they roll pricing in, in 2021. They may have some in the first quarter. They may have some rolling into the second quarter. But we're not certainly planning today to have second half price increases to go in.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

I think our approach is this, that we try to keep the increase to a minimum, and when you approach it that way, there can be a little more volatility. We don't want to be out in front of our customers asking for more than what we really absolutely can see with the hopes of covering what might be a future price increase. And so that introduces a little more volatility if, in fact, the numbers move or the prices move, we've got to respond to that. But we think it's the best approach to our customers to try to keep the pricing to a minimum and have an open discussion with them about the volatile environment that we're in.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Got it. Thanks so much.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

A

Thanks, Garik.

Copyright © 2001-2022 FactSet CallStreet, LLC

Operator: Our final question is from the line of Jaideep Pandya with On Field Research. Please proceed with your question.

Jaideep Pandya
Analyst, On Field Investment Research LLP

Q

Thank you. It's really just around M&A, actually. I mean, you know considering what has happened in the raw materials industry, and if you want to sort of look at it from a point of view of bulking up and increasing your size, do you think a large ticket consolidation on an inter-regional basis is an answer to this? Or is this really how you're going about in housing some of the resin capacity, and verifying or rather putting more suppliers on your list is the way to go about? Sort of different way of asking, but do you see large ticket consolidation in this industry because generally raw material prices have brought coating consolidations? Thank you.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

Well, if I may, just start with your first point about if our desire is to bulk up, I'd say that what is really the driver for our M&A strategy is our – is, in fact, our strategy. So, it's not to be the biggest, it's not to do anything other than to put ourselves in a position to be able to best serve our customers. And we prefer to do that in a very unique and differentiated way, bringing them solutions that help them to be successful and profitable.

And so, the litmus test, if you will, is business by business looking at what is it that we need to be in position to be able to serve our customers? We don't have a desire to be everything to everyone everywhere. We're not chasing commodities. We're not – it's not just about size. To us, it's about driving value for our customers and shareholder value for our shareholders. And we do that by staying true to a very precise strategy. You're not going to see us jumping all over the world. Something's for sale. So, we're chasing it. We've got a very defined strategy, and if it bounces up against our strategy and will enhance us to do it, we're interested. If not, we're not.

Jaideep Pandya
Analyst, On Field Investment Research LLP

Q

All right. Thank you very much.

John George Morikis
Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.

A

You bet.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

A

Thank you.

Operator: Thank you. At this time, I'll turn the call back to Jim Jaye for closing remarks.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.

Thank you, Rob. I hope you heard today how excited we are as we enter fiscal 2022. A lot of opportunity ahead of us, and we're after it. Probably that demand is strong, as you heard, across all of our businesses and just a lot of confidence in our people and our capabilities. So, thank you for joining us today. As always, we'll be available for your follow-up calls and follow-up emails. Have a great rest of your day. Thank you.

Copyright © 2001-2022 FactSet CallStreet, LLC

Operator: This will conclude today's conference. Thank you for your participation. You may now disconnect your lines at this time.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.